SUMMARY OF THE KEY RATE DISCUSSION

DURING THE QUIET PERIOD AND IN THE COURSE OF THE MEETING OF THE BANK OF RUSSIA BOARD OF DIRECTORS ON 25 APRIL 2025

Discussants: members of the Bank of Russia Board of Directors, senior executives of the Monetary Policy Department, the Research and Forecasting Department, and representatives of other Bank of Russia Departments and Main Branches.

The Monetary Policy Department together with the Research and Forecasting Department presented the results of the analysis of the current economic developments nationwide and worldwide, as well as the suggestions regarding the baseline macroeconomic forecast for 2025–2027 and its variations. The Bank of Russia Main Branches provided information on the situation in the Russian regions, including based on companies' surveys. Furthermore, the participants in the discussion considered the information from the Financial Stability Department and the International Settlements Department.

This Summary covers **the key points of the discussion.**

CONTENTS

ECONOMIC SITUATION AND INFLATION

MAIN FACTS

The current price growth rate in 2025 Q1 averaged 8.3% (seasonally adjusted annualised rate, SAAR) vs 12.9% SAAR in 2024 Q4 (including 3.6% vs 7.6% for non-food goods; 9.4% vs 18.2% for food products; and 12.5% vs 12.3% for services). Core inflation decelerated from 13.4% SAAR in 2024 Q4 to an average of 8.9% SAAR over 2025 Q1. According to high-frequency data and surveys, the growth of economic activity slowed down in 2025 Q1. In January–April 2025, the Bank of Russia's Business Climate Index was on average close to the level of 2024 Q4. Businesses' price expectations and households' inflation expectations barely changed in April. In February, the unemployment rate stayed at its all-time low of 2.3% (seasonally adjusted, SA). The growth of nominal and real wages decelerated year on year in January–February 2025.

DISCUSSION

In 2025 Q1, current inflationary pressures eased, while remaining high. Prices changed unevenly across components. The rise in non-food prices decelerated to low levels. The growth rates of food prices declined as well. However, excluding fruit and vegetable prices, which had dropped since the beginning of the year (SA), food price growth still exceeded 10%. The increase in services prices slightly accelerated, primarily on account of higher public transport fares and the indexation of certain housing and utility tariffs. Excluding the above items, the growth rate of services prices edged down, while also remaining above 10%.

The participants discussed the reasons behind this heterogeneity. They noted that **monetary policy decisions are usually transmitted to different price segments with different time lags**. Prices for non-food goods, especially durables, are faster to respond as their purchase is easier to postpone. Furthermore, the direct role of lending is most notable in the demand for durables, which decreases amid tight monetary policy. High interest rates on deposits encourage households to save and postpone large purchases. Prices for services and food products are less affected by loans and primarily depend on household incomes and supply-side factors (e.g. the recent harvest). Currently, the change in consumer preferences is an additional factor influencing services prices. Against the backdrop of a considerable growth in incomes over the past few years, the demand for services was expanding faster than that for goods. This is the reason why price growth rates in this segment are higher. According to the participants in the discussion, the impact of monetary policy on prices for services and food products will become stronger as the economy returns to a balanced growth path.

The discussants concurred that **a stronger ruble had been a significant contributor to the slowdown in the current price growth since the beginning of the year**. Nevertheless, as in March, opinions varied as to how strongly the ruble appreciation was driven by monetary policy. Some participants believed that the expectations of geopolitical improvements had influenced the exchange rate to a greater extent. However, the majority argued that **the ruble appreciation was more associated with tight monetary policy**. It was affecting the ruble exchange rate by both reducing the demand for imports and encouraging interest in Russian assets, given a considerable interest rate differential (higher interest rates in Russia as compared to other countries). The meeting also noted that, according to estimates, current price growth rates were down in 2025 Q1, even excluding the impact of the ruble exchange rate.

Households' and businesses' inflation expectations generally remained high and hampered disinflation. In April, companies' price expectations decreased somewhat. Breakeven inflation for inflation-indexed federal government bonds (OFZ-IN) edged up. Analysts did not make any significant changes to their inflation forecast for 2025–2027. Households' expectations rose slightly on account of higher expectations of respondents with savings, while those of respondents without savings declined. It was argued that inflation expectations of respondents with savings are usually more sensitive to economic news. The survey was conducted in early April when the news about the US import tariffs and their possible inflationary effects were actively discussed, which was accompanied by a decline in prices in international financial and commodity markets. Respondents without savings pay more attention to changes in prices while shopping– their expectations lowered in April following an ongoing deceleration in the current price growth.

The participants concurred that **it was yet premature to draw an unambiguous conclusion as to whether inflationary pressures were easing sustainably and fast enough**, considering their heterogeneity and elevated inflation expectations. A further decrease in domestic demand and inflation expectations will slow down the growth of prices across a wider range of goods and services and will ensure sustainable disinflation in general.

According to assessments, **the economy continued to grow in 2025 Q1, albeit more modestly than in the previous quarters**. The meeting pointed out that calendar effects should be taken into account when assessing the annual economic growth rate. The assessments of sequential growth should factor in the high base of 2024 Q4 associated with the completion of a number of large orders in manufacturing in December 2024. These effects were adding some noise to the dynamics of economic indicators.

The economic slowdown in 2025 Q1 was uneven across sectors and demand components. In particular, public catering, trade, and tourism continued to expand steadily, whereas mining and quarrying as well as manufacturing saw a downturn in output. As for demand, its cooldown was most significant in the segment of durables. The demand for food products and services remained elevated, which accounted for higher price pressures in these categories. Although growing slightly more slowly, investment stayed close to the high levels of late 2024, supported by capital cushions accumulated by companies over the past years and their strong financial performance in early 2025. Most of the businesses surveyed by the Bank of Russia reported plans to maintain investment volume in 2025 or build it up, albeit more moderately than in the previous years. The participants in the discussion agreed that the growth in investment activity could still be expected to slow down gradually in 2025.

The labour market shows more signs of a slight easing. During the surveys, companies in many regions reported less acute labour shortages. Some businesses decreased their demand for workers. Employees that had been laid off found jobs in companies showing high demand for labour. It is yet difficult to evaluate the dynamics of wages as annual bonuses were partly paid at the end of 2024 instead of 2025 Q1. It will become possible to make more accurate evaluations after the data for April 2025 are published. Companies surveyed by the Bank of Russia are planning to raise wages more moderately in 2025 as compared with 2024 and 2023.

In March, budget expenditures approached their seasonal norm. The discussants still assumed that **the normalisation of fiscal policy in line with the approved parameters of the federal budget was to become an important disinflationary factor this year**. Nevertheless, they also mentioned growing uncertainty over future dynamics of budget revenues, given current price trends in commodity markets.

In late April, the Ministry of Finance of the Russian Federation announced that it might be reasonable to adjust the fiscal rule in the future to take into account more pronounced long-term risks to global energy prices. The participants in the discussion concurred that if the fiscal rule-based cut-off price for oil was to be decreased, it would become an additional medium-term disinflationary factor. Overall, the adjustment of the fiscal rule-based cut-off price in accordance with a more conservative estimate of a long-term equilibrium in the global energy market would make the fiscal policy stance more robust and less vulnerable to oil price fluctuations.

The meeting inferred that the overall situation in the economy was developing close to the February baseline forecast. The discussants agreed that there was **a greater certainty that the economic overheating had passed its peak in 2024 Q4, with the positive output gap starting to narrow in 2025 Q1**. This is evidenced by lower current inflationary pressures, a steady cooldown in domestic demand, and the signs of a slight easing in the labour market. In addition, such a conclusion may be drawn from the output gap assessments factoring in the updated statistics on GDP for 2024 as well as high-frequency data and surveys for 2025 Q1. However, the overheating of the economy remains significant. It will be possible to make a firm conclusion about the sustainability and speed of its decrease later on.

MONETARY CONDITIONS

MAIN FACTS

Over the period starting from the March meeting, money market rates and OFZ yields went up, approaching February 2025 levels. Deposit and loan interest rates edged down. According to high-frequency data, the retail loan portfolio remained overall unchanged (MoM SA) in March as the portfolio of unsecured consumer loans was still contracting, while that of mortgages continued to expand at a moderate pace. The growth of the corporate loan portfolio accelerated somewhat (MoM SA). There was a continuous inflow of household funds into time deposits. The growth rates of broad money, adjusted for foreign currency revaluation, were down.

DISCUSSION

Most discussants concurred that monetary tightness had barely changed overall since the previous meeting. Price and non-price monetary conditions remained tight. However, the dynamics of price indicators were diverse. Non-price conditions did not change as banks maintained strict requirements for borrowers' financial standing and collateral. Saving activity was strong, while lending was growing modestly.

The participants discussed the trends in price indicators of monetary tightness in detail.

- Money market rates and OFZ yields increased primarily due to the upward revision of the future key rate path following the March decision on monetary policy. Interest rates were also affected by the reassessment of geopolitical risks by market participants. In the overnight segment of the money market, the rise in interest rates was attributed to the banking sector approaching a structural liquidity deficit. Given the persistently uneven distribution of liquidity across banks, certain credit institutions raised their demand for liquidity in the market, which caused short-term interest rates to climb slightly above the key rate level.

- Interest rates on deposits and spreads between deposit rates and the key rate returned to the levels observed before their increase last autumn. They were still influenced by improvements in banks' compliance with the liquidity coverage ratio.

- Interest rates on loans dropped. Spreads between floating loan rates and the key rate narrowed, but remained larger than in mid-2024. Corporate bonds were offered with smaller spreads between coupon rates and the key rate than the month before. This indicates a certain weakening of the impact of autonomous factors (that is, factors not associated with monetary policy), i.e. banking regulation normalisation and macroprudential policy tightening, on lending conditions.

The meeting pointed out that the assessments of monetary conditions should factor in not only nominal, but also real interest rates. In April, real OFZ yields returned to the levels registered in January–February 2025. Although loan and deposit rates fell compared to the beginning of the year, inflation expectations also lowered in 2025 Q1. In real terms, the changes were minor. Hence, **price monetary conditions barely changed and remained tight**.

Higher incomes allowed households to increase both savings and consumption. Despite the drop in nominal deposit rates, the active inflow of household funds into time deposits continued and the saving ratio remained high.

Credit activity stayed modest in all segments.

- The portfolio of unsecured consumer loans continued to shrink under the influence of both tight monetary policy and tougher macroprudential requirements.
- The demand for mortgages was constrained by high interest rates. Moderate growth rates in mortgage lending were primarily accounted for by the subsidised mortgage segment.
- In March, the increase in the corporate loan portfolio sped up somewhat amid the normalisation of budget spending over this period. That said, corporate lending was expanding more slowly year on year. The year-to-date growth of the banking system's ruble claims on organisations was subdued.

The participants debated whether the reason behind slower lending growth was the cooldown in borrowers' demand or banks' supply-side constraints. They inferred that **lower demand for loans was a more significant contributor** to this trend, as evidenced by banks' and companies' surveys. Simultaneously, supply-side factors are affecting credit dynamics. In particular, banks have decreased their risk appetite and adopted a more conservative approach to selecting borrowers, while spreads between loan rates and the key rate remain elevated.

The discussants concurred **that the deceleration in lending growth was overall in line with the Bank of Russia's February forecast**. Credit activity in the retail segment has been cooling down for quite a long time, which proves that this trend is sustainable. It is yet premature to come to a similar conclusion regarding the corporate segment, although there are more signs evidencing that the trends observed are sustainable. **Tight monetary policy will continue to translate into credit dynamics. The autonomous factors will also preserve their influence.** Namely, banks will need to further adjust their balance sheets to the ongoing normalisation of banking regulation and the tightening of macroprudential policy, including by increasing capital adequacy (for some of them). In 2025, lending will be expanding more moderately than in the previous years, which will contribute to the deceleration of domestic demand growth and inflation.

Lower growth rates of broad money in March were attributed to reduced budget spending and a seasonal budget surplus as well as a moderate credit expansion. As highlighted by the discussants, the trajectory of money supply movements since early 2025 is close to the trajectories observed in 2016–2019 when inflation was close to 4%. However, it is too early to say that the deceleration of money supply growth is sustained.

The participants noted that **the quality of the loan portfolio remained rather high overall, although certain segments experienced a slight deterioration**. Most companies still managed to service their loans properly, including due to high profits in the past years. Nevertheless, the number of loan restructuring applications from small and medium-sized businesses was on the rise. In late March, the number of restructured loans issued to large companies edged up as well.

EXTERNAL ENVIRONMENT

MAIN FACTS

High-frequency data indicate a quarter-on-quarter slowdown in the global economic growth in 2025 Q1. Inflationary pressures were up in the largest advanced economies (QoQ SAAR). Import tariffs rose considerably around the world, especially in the US. Risks of slower global economic growth and higher inflation in 2025–2026, as compared to earlier expectations, increased. Year-to-date prices for most Russian exports were down. According to the preliminary estimate, the value of exports and imports dropped in 2025 Q1 both quarter on quarter and year on year, with imports declining more significantly than exports. The current account balance increased in 2025 Q1 vs 2024 Q4, but was below the level observed in 2024 Q1. The ruble appreciated considerably in 2025 Q1. In April 2025, it stayed stronger against the main currencies than in late 2024.

DISCUSSION

The meeting noted that **the forecasts of the world economy's growth had become significantly worse due to higher import tariffs in the US and the response measures of other countries**. The discussants concurred that this should be taken into account in the macroeconomic forecast. However, it was premature to factor large-scale and prolonged trade wars into the baseline scenario. As the negotiations progress, the trade restrictions and tariffs will be gradually reduced, although they will remain above the levels registered in the previous decades.

Due to the import tariffs hikes, US inflation is expected to be higher in 2025 than assumed in the Bank of Russia's February forecast. Nevertheless, as economic activity in the US cools down, price growth will decelerate. Market participants expect the US Fed to cut the key rate faster than expected earlier to smooth out business cycle fluctuations.

The discussants concurred that this should be taken into account in the forecast.

The impact of the imposed trade tariffs on the Russian economy is expected to be limited, considering the structure of foreign trade and specific features of financial flows. The tariffs will mainly affect the economy indirectly, particularly through lower global demand and oil prices. Oil prices have already dropped since the beginning of the year due to the concerns about the global economic outlook coupled with the OPEC+ decisions to restore oil production. The participants in the discussion agreed that **the baseline scenario prices for Russian oil in 2025 should be decreased to $60 per barrel on average**. According to the meeting oil prices will further stabilise at this level. Global demand will be recovering as the trade restrictions and tariffs are reduced and as a result of government support measures. Nevertheless, the expansion of oil production by both OPEC+ and non-OPEC+ countries will be constraining oil prices. Moreover, risks of a further escalation of trade wars remain significant. If the restrictions stay in place for a long period, they may affect oil price dynamics.

The discussants underlined a greater reduction in imports in 2025 Q1 as compared to exports, even adjusted for seasonal factors. Most of the participants concurred that lower imports were largely a reflection of a cooldown in demand caused by tight monetary conditions. Other reasons discussed included a temporary adjustment of the demand for foreign cars following its surge in August–October 2024 before the recycling fee rise.

Despite declining oil prices and a worsening situation in the global economy, the ruble stayed notably stronger than at the end of 2024. Since the beginning of the year, it has been supported by sustained supply of foreign currency from exporters coupled with moderate demand for it from importers. In addition, high ruble lending rates could encourage companies that had accumulated foreign currency liquidity to sell it in greater amounts to finance current expenses in rubles. The extensive sale of foreign currency could also be driven by the desire to receive additional income from investing in ruble assets at high interest rates. Market participants' expectations of a possible improvement in the geopolitical environment were also supporting the ruble. The majority of the discussants concurred that, according to the data obtained, the ruble strengthening was largely associated with the transmission of tight monetary policy.

INFLATION RISKS

The participants shared the opinion that **the balance of risks to the baseline scenario remained shifted towards proinflationary ones**.

The main **proinflationary factors** include:

- *A persistently large positive output gap (economic overheating)*, which can be the result of both elevated domestic demand and more severe supply-side constraints. High demand may be supported by the resumption of accelerated lending growth. If labour shortages become more acute, this can lead to labour productivity lagging even more behind the growth of real wages, while intensifying sanctions may have a downward effect on the growth rate of the economy's potential. If the economy remains significantly overheated or its overheating decreases more slowly, irrespective of the reasons, high inflationary pressures will persist.

- *A long period of high inflation expectations or their growth*, which might directly influence demand and prices and strengthen the second-round effects of one-off inflation factors.

- *Worsening terms of external trade due to deteriorating conditions in global commodity markets and geopolitical developments*. A global economic slowdown caused by expanding protectionist measures and a faster energy transition might lead to lower demand and prices in commodity markets. An increase in oil production by both OPEC+ and non-OPEC+ countries may put additional pressure on oil prices. As a result, the value of Russian exports might decline.

- *A larger budget deficit and the emergence of second-round effects associated with the structure of budget revenues and expenditures*. An easing of fiscal policy or an expansion of subsidised lending programmes might lead to persistently high domestic demand and inflation. Furthermore, a considerable and persistent downturn in global oil prices may affect budget revenues and require an adjustment of the fiscal policy parameters. If such an adjustment is not made, this can create risks to inflation dynamics.

The main **disinflationary factors** include:

- *A faster and more considerable slowdown in lending*, which can result from tighter price and non-price lending conditions, including lower risk appetite of banks under the influence of their estimates of economic trends as well as all the decisions taken by the Bank of Russia earlier. An excessive slowdown in lending may lead to a more substantial cooldown in domestic demand, a faster inflation deceleration and its downward deviation from the target.

- *A de-escalation of geopolitical tensions*. In the short term, this can contribute to inflation deceleration. However, in the medium term, its impact might be less unambiguous and depend on the balance of demand and supply in the economy.

CONCLUSIONS FOR MONETARY POLICY AND THE KEY RATE DECISION

The meeting considered the updated forecast estimates – the baseline scenario and its variations. The differences in the variations related to the short-term forecasts of inflation and economic growth (including the projections of how fast the positive output gap will be closing), the adaptivity of inflation expectations, and oil price dynamics.

Based on the analysis of the new data and updated forecast estimates, the discussants reached **a broad consensus on the need to keep the key rate unchanged at the April meeting**. The main arguments were as follows:

- The effects of tight monetary conditions are becoming more pronounced in the dynamics of demand and prices. Current inflationary pressures continue to ease, including in terms of the underlying components of inflation. There are more and more signs that the positive output gap started to narrow in 2025 Q1.

- Nevertheless, the sustainability and speed of disinflation trends should be assessed with caution. Inflation and economic growth are slowing down unevenly. Domestic demand remains strong so far. There is high uncertainty regarding future developments, especially in terms of the external environment. The Bank of Russia has to maintain tight monetary conditions for the current economic trends to become sustainable, namely for the positive output gap to continue decreasing, ensuring a further deceleration of inflation and its return to the target in 2026.

As in March, the main issue that caused the most controversy was the signal that should be given for the upcoming meetings. The participants discussed two alternatives:

- A neutral signal without indicating the direction of the key rate changes at the future meetings.

- A moderately tight signal similar to the one given at the March key rate meeting.

The discussants **supporting the moderately tight signal** attached greater importance to the fact that the balance of risks to the inflation forecast was still shifted towards proinflationary ones. The changing external environment and its impact on the economy, exchange rate dynamics, and budget revenues are also a source of concern. Inflation expectations stay elevated and their decline has paused. To achieve 4% inflation in 2026, the key rate might need to be raised further. Giving a softer signal, on the contrary, could cause market participants to form expectations of a rapid key rate reduction in the future and result in an easing of price monetary conditions.

However, **most participants believed that the neutral signal could be given**. Compared to the March meeting, there is now more evidence of stronger desinflationary trends in the economy. Furthermore, the concerns regarding certain factors mentioned at the March meeting have also decreased. Credit activity remains moderate, while budget spending has returned to its seasonal norm. The ruble stayed strong despite more cautious sentiment of market participants in terms of a potential future de-escalation of geopolitical tensions. The effects of tight monetary policy have become more noticeable in exchange rate dynamics.

The discussants noted that although a key rate increase was still possible, its likelihood was lower as compared with March. The neutral signal means that the key rate might be kept unchanged, cut, or raised. Nevertheless, the participants concurred that the neutral signal should be supplemented with an indication to an extended period of tight monetary policy. This will reduce the risks that a softer signal will be misinterpreted as an intention to decrease the key rate faster in the future.

The meeting highlighted that real indicators rather than nominal ones are important for evaluating monetary tightness. If inflation expectations lower, the tightness of monetary conditions in real terms will grow with the key rate kept at the same level. Thus, an extended period of tight monetary conditions does not mean that the key rate will stay unchanged for a long time. The required monetary tightness in real terms can be ensured even with the key rate being cut, provided that inflation expectations decrease as well.

Following the discussion, **on 25 April 2025, the Bank of Russia Board of Directors decided to keep the key rate at 21.00% per annum**. The Bank of Russia will maintain monetary conditions as tight as necessary to return inflation to the target in 2026. This means that monetary policy will remain tight for a long period. Further decisions on the key rate will be made depending on the speed and sustainability of the decline in inflation and inflation expectations. According to the baseline scenario, the average key rate is expected to be in the range of 19.5–21.5% per annum in 2025 and 13.0–14.0% per annum in 2026.

The Bank of Russia Board of Directors expects the world economy in the baseline scenario to grow more slowly in 2025–2026 and the 2025 oil price to be $5 per barrel lower than forecast in February. The positive output gap in the Russian economy will continue to narrow steadily under the influence of monetary policy. The GDP growth forecast has been kept unchanged. GDP is projected to rise by 1.0–2.0% in 2025 and by 0.5–1.5% in 2026. In 2027, the economy will sustainably return to balanced growth rates that are still estimated at 1.5–2.5% per annum. Given the monetary policy pursued, annual inflation will go down to 7.0–8.0% in 2025, return to 4% in 2026, and stay close to 4% further on. More details are available in the Commentary on the Bank of Russia's Medium-term Forecast.